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C O N F I D E N T I A L SECTION 01 OF 03 BAGHDAD 002588

SIPDIS

E.O. 12958: DECL: 06/16/2015

TAGS: [EFIN](#) [ECON](#) [EAIR](#) [PREL](#) [PGOV](#) [PTER](#) [IZ](#) [ECON](#) [IMF](#)

SUBJECT: IRAQ: MINISTER OF FINANCE ON CONFERENCES, ARTICLE IV, BUDGET, ASSET RECOVERY, SECURITY AT BIAP, TF TRAINING

Classified By: Charge d'Affaires James F. Jeffrey for reasons 1.4 (b) and (d)

1. (U) THIS IS AN ACTION REQUEST. PLEASE SEE PARAGRAPH 16.

2. (C) SUMMARY: Finance Minister Allawi stressed to Charge and DCM on June 16 his readiness to engage fully in ensuring the success of the upcoming Brussels and AMMAN conferences and the July 10-11 Joint Economic Commission (JEC), and confirmed Prime Minister Ja'afari has agreed to a face saving solution to allow Planning Minister Saleh to maintain the donor coordination lead within the Iraqi Transitional Government (ITG). Article IV discussions with the IMF went very well, according to Allawi, and the IMF will not insist on additional revenue producing measures in 2005 other than oil subsidy cuts. While there is consensus within the ITG on the need for reform, the timing and extent of subsidy cuts is still being debated. Given Iraq's budgetary pressures, late payments of bills (e.g., fuel purchases from Turkey) have become a de facto form of cash management. Skeptical of Syrian Finance Minister Hussein's ability to resolve a "political issue," Allawi indicated he would nonetheless telephone Hussein on asset recovery. Allawi acknowledges the security implications, but is opposed to a renewal of the Global security contract for the Baghdad International Airport. MoF is prepared to accept a Terrorist Finance/Anti-Money Laundering assessment team sometime in the late summer/early fall -- action request in para 16. END SUMMARY.

3. (C) During a wide-ranging discussion at the Embassy on June 16 with the Charge and DCM (also attended by Economic Minister Counselor and Treasury Attache), Minister of Finance Allawi outlined an ambitious agenda facing him over the next several months. Commenting first on Iraq's political situation, Allawi said he expected the current impasse over the composition of the drafting committee on the constitution to be resolved within the next few days, noting that many problems in Iraq end up being resolved at the last minute. He stressed the constitutional process must go forward and that only insurgents want to see it delayed.

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CONFERENCES  
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4. (C) Observing that Allawi will be heavily involved in a number of important upcoming events (Brussels Conference, JEC, Amman Donors Conference), the Charge stressed the positive role the conferences can play to further the image of the new Iraq and its accomplishments. In particular, the Charge highlighted Washington's strong desire to see full participation by relevant Iraqi Ministers in the JEC discussions. Allawi replied he had already discussed this in a meeting with Prime Minister Ja'afari on June 15. Responding to a question from the Charge, Allawi remarked he had also already raised with the Foreign Ministry the issue of delegation of legal authority to sign agreements. Allawi said he should have authorization from both the Presidency Council and the Prime Minister in time for the JEC. Allawi acknowledged the Charge and DCM's comments as to the venue and likely timing of the JEC, indicating that a mid-July JEC would not present a problem.

5. (C) Allawi confirmed Ja'afari agreed on June 15 to a face-saving compromise that would allow Minister of Planning Barham Saleh to retain the lead on donor coordination issues. Both Saleh and Allawi get along well personally and they will work closely together to present a coherent and unified vision on donor assistance at Brussels, he said. Allawi added, however, it would likely not be possible to present all details of a new donor coordination mechanism at the Brussels conference. Allawi took credit for the PM's decision, saying it had been his proposal: he told the PM that for Iraq to get the most effective use out of donor assistance an "elite" group of government officials directly under the Prime Minister should be established, but given that there is not time to establish and make functional such a group in the tenure of the ITG, it would be better to "leave things as they are," with MOPDC in charge.

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ARTICLE IV DISCUSSIONS; BUDGETARY PRESSURES  
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16. (C) Allawi characterized his recent Article IV discussions with the IMF in Abu Dhabi as very positive. He expects the IMF to file a good report on Iraq that will note Iraq is generally on the right track towards an SBA. While cautioning that new expenditures should be linked to revenue flows, the IMF has accepted Iraq's need for a supplemental budget. With the exception of oil subsidy cuts, according to Allawi, the IMF has agreed other possible revenue generating mechanisms can be postponed until 2006.

17. (C) Allawi observed that Iraq does not yet face a fiscal crisis, but must remain vigilant in its management of the budget. Iraq will face a financing gap, and has only two significant sources of revenue: oil and donor assistance. The Central Bank of Iraq will also have to be careful to maintain sufficient reserves to defend Iraq's currency. Adding that Iraq is treading a very fine line, Allawi said he hoped to use the need for fiscal restraint as a scare tactic to convince others in the government to agree to cuts in oil subsidies. He is advocating the price of gasoline be raised to 250 Iraqi Dinars per liter. Allawi cited by way of comparison an equivalent price of 400 ID for gasoline in Saudi Arabia, but said the Ministry of Oil is nevertheless pushing for a less significant subsidy cut in Iraq.

18. (C) Referring to the decision of the Iraqi Interim Government to return to government payrolls thousands of former state employees as political, Allawi said it would of course have a negative impact on Iraq's budget situation. Pension reform also remains an important budgetary question mark. While acceleration of assistance disbursements is of course good, according to Allawi, it is not likely to have a significant budgetary effect.

19. (C) In response to a question from the DCM, Allawi said the ITG would be prepared prior to the Brussels Conference to make a policy decision that fuel subsidies should be cut, but would not be ready to issue any kind of administrative implementation instructions in the near future. Allawi has explained at Cabinet meetings Iraq's only sources of income are oil and donor assistance and that the payment of 35% of the budget as handouts is unsustainable. While Allawi believes most ministers agree with him, his remarks have so far elicited only silence.

110. (C) Agreeing with the Charge's comments about the importance of efficient and effective budget expenditure mechanisms to avoid delays in critical payments, Allawi said there remains great confusion within the Iraqi bureaucracy as to what constitutes legitimate expenditures within a proper budgetary framework. Many think a decree or promise by a minister constitutes an approved expenditure. Cash flow is also a real problem, and payments delays sometimes reflect a fundamental lack of sufficient funds available. Allawi cited the example of the State Oil Marketing Organization (SOMO) that has run up debts because higher fuel prices have increased the cost of its monthly purchases abroad from its budgeted \$200 million to \$250 million. Bill payment delays have become a de facto form of "crude" cash management for Iraq.

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ASSET RECOVERY  
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111. (C) Allawi accepted the DCM's recommendation he telephone Syrian Finance Minister Hussein later in the day to discuss recovery of Iraqi assets, but commented the issue is primarily a political one over which Hussein has little control. He acknowledged the DCM's comments that Syria should not be given the opportunity to try to claim Iraq appears unwilling to engage on the topic. Allawi also observed that a number of countries still hold significant amounts of frozen Iraqi assets, including the United Kingdom (\$250 million), Bahrain (\$150 million), and Jordan (\$450 million). With regard to Lebanon, Allawi recently discussed by phone claims against Iraqi assets in Lebanese commercial banks with the chairman of a new Lebanese committee tasked with looking into the issue, adding that the chairman Ghassan Bulbol happens to be his daughter's father-in-law.

112. (C) Allawi agreed with Eminooun's comment that the Brussels Conference represented an opportunity to leverage asset recovery issues. Allawi also indicated Iraq intends to ask the UN for a five-year moratorium on reparations payments, a measure that could give Iraq an additional \$1 billion in budget flexibility.

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GLOBAL'S CONTRACT FOR SECURITY AT BIAP  
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113. (C) Treasury Attache noted ongoing negotiations between the Ministry of Transportation and the private security firm Global (note: Global provides security at the Baghdad International Airport, has not been paid since March, and has been operating without a contract since the beginning of the

year). Both the Charge and DCM also stressed the critical importance of reaching a settlement between the two parties so that adequate security coverage at the airport can continue. Otherwise, BIAP civilian operations would likely have to be shut down.

14. (C) Allawi, who complained of having recently been treated with disrespect by Global personnel while going through BIAP, replied that foreign security firms do not have a good reputation with the Iraqi people. While Allawi accepts the argument that security must be maintained, he made clear that he does not like Global trying to hold the security of Iraq hostage to its commercial dispute with the Ministry of Transportation. Allawi dismissed any closing down of the civilian side of BIAP as mostly inconveniencing government officials departing for foreign trips and seemed willing to accept a temporary cessation in civilian operations if needed. Allawi will pass along the USG's concerns, but will recommend to the Prime Minister that a new contract for Global not be considered.

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TF TRAINING; UN DUES  
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15. (C) Allawi accepted Emincouns offer to have a U.S. team visit Baghdad sometime in the late summer/early fall to conduct an assessment of what kind of training would be most applicable to assist MoF and CBI on terrorist finance and anti-money laundering. While he was not aware of issues related to the payment of Iraqi dues to the United Nations, Allawi said he would look into it and consult with the Ministry of Finance.

16. (U) ACTION REQUEST: Please propose dates for an assessment team visit on on terrorist finance and anti-money laundering training.

17. (U) REO Hillah, REO Basra, REO Kirkuk, and REO Mosul minimize considered.  
Jeffrey